

GOVERNMENT OF ANDHRA PRADESH
ABSTRACT

Re-structuring of Krishna Godavari Gas Network Limited (KGGNL), a Special Purpose Vehicle constituted for laying Natural Gas transmission and distribution network in the State - Approved – Orders – Issued.

INFRASTRUCTURE AND INVESTMENT (IID-2) DEPARTMENT

G.O.Ms.No.45

Dt: 24-11-2008.

Read the following:-

1. G.O.Ms.No.332, Genl.Admn.(Cabinet) Dept., dt.01.08.2005.
2. G.O.Ms.No.9, I&I dept., dt.20.7.2006.
3. G.O.Ms.No.2, I&I Dept.,dt.17.3.2007
4. From the VC&MD, INCAP, Lr.No.INCAP/D/P&NG RN/208/2007-08, Dt.29.07.2008.

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ORDER:

In the G.O.1st read above the subject “Infrastructure for all Natural Gas Projects” was allocated to the Infrastructure & Investment Department. In the G.O.2nd read above orders were issued constituting a Special Purpose Vehicle viz., Krishna Godavari Gas Network Limited (KGGNL) to lay, build, own, and operate Natural Gas transmission and distribution network in the State with 50% equity shareholding by the Infrastructure Development Finance Corporation (IDFC) (Private Equity), the Gujarat State Petroleum Corporation (GSPC) 25% and 25% by the State Government, and appointing the Infrastructure Corporation of Andhra Pradesh (INCAP), a fully owned Corporation of the State Government as the Nodal Agency on behalf of the State Government. This equity shareholding in the KGGNL has been subsequently revised to 26% each by the INCAP and GSPC and 48% by the IDFC (PE) vide orders 3rd read above.

2. The availability of Natural Gas being very crucial for the project, the Government of Andhra Pradesh joined hands with the GSPC as to have an assured supply of Natural Gas as the GSPC are one of the New Exploration Licensing Policy (NELP) contractors, engaged in the oil and gas exploration in Krishna-Godavari Basin.

3. It was envisaged that the GSPC group would be able to supply Natural Gas from 2008-2009 and however, as per the latest available estimates the GSPC may not be able to supply Natural Gas till at least 2011-2012. Out of the four NELP contractors viz., RIL (Reliance Industries Limited), Cairns Energy, GSPCL, and ONGC, the RIL are the only ones to have received certificate from the Director General, Hydrocarbons for commercialization of Natural Gas of 80 mmscd before March 2009. An additional 40 mmscd is expected to be commercialized in the year 2010-2011. The RIL-RGCL has come forward in a big way proposing for the restructuring of KGGNL and to contribute nearly 67% equity for becoming a major partner of proposed reconstituted KGGNL.

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4. The Vice Chairman & Managing Director, Infrastructure Corporation of Andhra Pradesh vide his letter 4th read above has stated that the CEO, KGGNL has furnished a draft Term Sheet indicating revised institutional framework with M/s Reliance Gas Corporation Limited (RGCL) with 67%, IDFC, GSPC and INCAP each with 11% equity share in the proposed re-structuring and requested the orders of the Government to convey the consent of INCAP to the proposed re-structuring to the KGGNL.

5. Government have therefore reviewed the entire matter and after careful consideration, hereby accord approval to the draft Term Sheet (appended to this G.O., as Annexure) re-structuring the KGGNL with the revised equity shareholding i.e., 67% by RGCL; 11% each by the IDFC (PE), INCAP and GSPC Group, and appointment of Board of Directors, etc. Further, Government hereby authorise the Secretary, I&I department to sign the Term Sheet on behalf of the State Government.

6. The Vice Chairman & Managing Director, INCAP shall take necessary further action accordingly.

(BY ORDER AND IN THE NAME OF THE GOVERNOR OF ANDHRA PRADESH)

Dr. MANMOHAN SINGH
SECRETARY TO GOVERNMENT

To:
The Vice Chairman & Managing Director,
Infrastructure Corporation of Andhra Pradesh, Hyderabad.
Copy to:
The Finance (Expr.PW) Department.
Sf/Sc.

// FORWARDED :: BY ORDER //

SECTION OFFICER

TERM SHEET

FOR SUBSCRIPTION AND SHAREHOLDER'S AGREEMENT

This non binding term sheet ("**Term Sheet**") is executed this [●] day of [●], 2008 by and among:

Krishna Godavari Gas Network Limited, a Company validly organized and existing in India under the Companies Act, 1956 and having its registered office at 8-2-93/82-B-2/A, Road No. 12, New MCH on 622, Banjara Hills, Hyderabad – 500 034, (hereinafter referred '**KGGNL**', 'Company' which expression shall, unless contrary to the context herein, be deemed to mean and include its successors and permitted assigns);

AND

Infrastructure Corporation Of Andhra Pradesh Limited, a Govt. of Andhra Pradesh undertaking, incorporated under the provisions of the Companies Act, 1956 and having its registered office at 10-2-1, Illrd Floor, FDC Complex, AC Guards, Hyderabad (hereinafter referred to as "**INCAP**", which expression shall, unless repugnant to the context or meaning thereof, be deemed to include its successors and permitted assigns);

AND

Gujarat State Petroleum Corporation Limited ("GSPCL") incorporated under the provisions of the Companies Act, 1956 and having its registered office at GSPC Bhavan, behind Udyog Bhavan, Sector 11, Gandhinagar-382 011 (which expression shall, unless repugnant to the context or meaning thereof, be deemed to include its successors and permitted assigns);

AND

Gujarat State Petronet Limited (“GSPL”) incorporated under the provisions of the Companies Act, 1956 and having its registered office at GSPC Bhavan, behind Udyog Bhvan, Sector 11, Gandhinagar-382 011 (which expression shall, unless repugnant to the context or meaning thereof, be deemed to include its successors and permitted assigns);

AND

GSPC Gas Company Limited (“GSPC Gas”) incorporated under the provisions of the Companies Act, 1956 and having its registered office at Block 15, 3rd Floor, Sector II, Gandhinagar -382011 (which expression shall, unless repugnant to the context or meaning thereof, be deemed to include its successors and permitted assigns);

GSPCL, GSPL and GSPC Gas hereinafter are collectively referred to as the **“GSPC Group”**;

AND

IDFC Private Equity Fund II & III, trusts created under the Indian Trusts Act, 1882, having their offices at 17 Vaswani Mansion, 3rd Floor, Dinshaw Vachha Road, Churchgate, Mumbai 400 020, State of Maharashtra, of which [●] is the trustee, acting through their investment Manager, IDFC Private Equity Company Limited, a Company incorporated under the Companies Act, 1956 and having their Registered Office at 17 Vaswani Mansion, 3rd Floor, Dinshaw Vachha Raod, Churchgate, Mumbai-400 020 (hereinafter referred to as **“IDFC PE”**), (which expression shall, unless repugnant to the context or meaning thereof, be deemed to mean and include the trustees of the aforesaid Trust for the time being and from time to time);

AND

Reliance Gas Corporation Limited, a wholly owned subsidiary of Reliance Industries Limited, a Company validly organized and existing under the Companies Act, 1956 with its registered office at Maker Chambers IV, 3rd floor, 222, Nariman Point Mumbai (**“RGCL”**).

INCAP, GSPC Group and IDFC PE are hereinafter collectively referred to as the **“Original Shareholders”**

INCAP, GSPC Group, IDFC PE, KGGNL and RGCL are hereinafter collectively referred to as the “**Parties**” and individually as a “**Party**”

This Term Sheet summarizes the principal terms with respect to the subscription by RGCL in the equity share capital of KGGNL such that after the subscription RGCL shall hold 67% of the issued and paid up share capital of KGGNL and the Original Shareholders hold 11% each of the issued and paid up equity share capital.

This Term Sheet is not legally binding and the Parties intend to replace this Term Sheet with a legally binding Share Subscription and Shareholders’ Agreement (“**SSA**”) within 60 days from the date of execution of this Term Sheet or any extended period as may be mutually agreed among the Parties. The SSA shall incorporate the provisions of this Term Sheet and such other standard provisions of share purchase agreements as are not inconsistent with the provisions of this Term Sheet.

Parties agree on the following terms:

NO.	PROVISION	PARTICUALRS
1	Objects of KGGNL	<p>KGGNL shall be an Infrastructure Company, engaged in building and operating gas transportation pipelines, including city or local distribution network.</p> <p>RGCL has submitted EOIs to the PNGRB for authorization to lay CGD Network in certain cities of AP, and may apply for additional cities in AP. If RGCL is successful in getting authorization, such authorization for cities in AP would be assigned to KGGNL.</p> <p>KGGNL shall assign its exclusive right to RGCL for marketing and selling of gas directly to consumers using KGGNL’s infrastructure.</p> <p>The network tariff to be charged by KGGNL to the users of the network shall be as bid by</p>

		<p>KGGNL (bid value determined on ‘arms length’ basis vis-à-vis RGCL) in cities where authorization has been granted to KGGNL by PNGRB through a competitive bidding process as per PNGRB regulations; provided however that in cities where no such bidding for network tariff was followed for authorization, the tariff shall be as determined on an ‘arms length’ basis and shall be according to the PNGRB regulations.</p>
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NO.	PROVISION	PARTICUALRS
2	Share Capital	<p>The present authorized share capital of KGGNL is Rs. 5.00 Crore of which the issued share capital is Rs. 5.00 Crore divided into 50.00 Lakhs equity shares which are held in the following ratio:</p> <p style="text-align: right;"> INCAP : 26% GSPC Group : 26% IDFC PE : 48% </p> <p>The Parties agree that the authorized equity share capital of KGGNL shall be increased to Rs. 100.00 Crores and KGGNL shall make fresh allotment of such number of shares to RGCL at par (“Acquisition Shares”) so that the issued and paid up equity share capital of KGGNL beheld among the Original Shareholders and RGCL in the following ratio:</p> <p style="text-align: right;"> RGCL : 67% INCAP : 11% GSPC Group : 11% IDFC PE : 11% </p>
3	Closing Date	<p>Closing Date means the date on which RGCL subscribes to 67% of the equity of KGGNL.</p> <p>KGGNL and the Original Shareholders agree to procure that on the Closing Date:</p> <p>(i) On receipt of the subscription amount for Acquisition Shares multiplied by 10 from RGCL, KGGNL shall allot the Acquisition Shares to RGCL.</p> <p>(ii) The Board of Directors shall be reorganized to reflect the</p>

		<p>constitution agreed in Para [6] below.</p> <p>(iii) The Memorandum of Association and Articles of the Association of KGGNL shall be amended so as to reflect the terms of the SSA.</p>
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NO.	PROVISION	PARTICUALRS
4	RGCL's Call Option	<p>(i) During one year period commencing on the fifth anniversary of the Closing Date, RGCL shall have the right to require IDFC PE to sell all or any of the equity shares of KGGNL owned by IDFC PE at that time ("Call Option"). In case RGCL exercises the Call Option, INCAP and GSPC Group would have an option to tender all or any of the equity shares of KGGNL owned by them at the same price, subject to RGCL's agreement.</p> <p>(ii) The price for such sale shall be determined by an Independent Valuer who shall be appointed in accordance with principles to be agreed in the SSA</p> <p>(iii) In case RGCL does not exercise the Call Option as given in Clause (i) above, IDFC PE has the right to sell the shares held by it to RGCL at a price as determined in accordance with clause (ii) above. ("Put Option"). IDFC PE shall exercise the Put Right within one year from the end of the sixth anniversary of Closing Date. In case IDFC PE exercises the Put Option, INCAP and GSPC Group would have an option to tender all or any of the equity shares of KGGNL owned by them at the same price, subject to RGCL's agreement.</p>
5	First Right of Refusal on transfer of shares	<p>After Closing Date, any Original Shareholder who is desirous of selling all or any of the equity shares in KGGNL shall first offer to sell such equity shares to RGCL at the same price and terms as the bonafide third party buyer.</p> <p>After Closing Date, if RGCL is desirous of selling all or any of the equity shares in KGGNL, it shall first offer to sell such equity shares to the Original Shareholders, in proportion to their equity holdings in KGGNL, at the same price and terms as the bonafide third party buyer.</p>

NO.	PROVISION	PARTICUALRS
		The mechanism and procedure for exercise of the Right of First Refusal shall be detailed in the SSA.
6	Constitution of Board	<p>The Board of Directors of KGGNL shall initially consist of Nine (9) Directors.</p> <p>IDFC PE shall be entitled to nominate one Director as long as it holds not less than 7.5% of the paid up equity share capital of KGGNL.</p> <p>GSPC Group shall be entitled to nominate one Director as long as it holds not less than 5% of the paid up equity share capital of KGGNL.</p> <p>INCAP shall be entitled to nominate one Director as long as it holds not less than 1% of the paid up equity share capital of KGGNL. RGCL shall have the right to nominate 6 Directors.</p>
7	Quorum of Board	The valid quorum for a meeting of the Board shall be one third of the total number of Directors or 2 (two) Directors, whichever is higher and shall always include at least one Reliance Director and one of the Original Shareholders' Director (i.e one among INCAP, GSPC Group and IDFC PE nominees). In the absence of a valid quorum at a meeting of the Board, duly convened, the meeting shall be adjourned to the same time and place not later than seven (7) days thereafter as the Chairman may determine. The quorum at such adjourned meeting shall, notwithstanding anything to the contrary contained in this Term Sheet, be the total number of directors present at the adjourned meeting. All business transacted at such adjourned meeting shall be regarded as having been validly transacted.
8	Chairman	<p>The Chairman of the Board shall be nominated from amongst the Directors appointed by RGCL.</p> <p>The professional CEO shall be appointed by the Board.</p>

NO.	PROVISION	PARTICUALRS
9	Support from RGCL	<p>As long as the Original Shareholders collectively hold 15% of the issued and paid up equity share capital of KGGNL, RGCL shall develop the City Gas Distribution Networks in the State of Andhra Pradesh only through KGGNL.</p> <p>As long as each of the Original Shareholders</p>

		<p>hold 7.5% of the issued and paid up equity share capital of KGGNL, such Original Shareholder shall not develop or invest in any other Gas Distribution Network in the State of Andhra Pradesh, provided however that:</p> <ol style="list-style-type: none"> 1) GSPC Group can use KGGNL's Network capacity to transport gas for selling to consumers upto a maximum limit equal to the collective shareholding of the Original Shareholders in KGGNL during the marketing exclusivity period of KGGNL as per PNGRB regulations. It is understood that post exclusivity period, the network would be available on open access basis as per PNGRB regulations. 2) If KGGNL is not interested in developing or expanding the CGD network in certain geographies it may consent GSPC Group to apply for CGD authorization in such geographies.
10	Legal Representation	<p>Each Party represents to one another that:</p> <ol style="list-style-type: none"> (i) The person signing this Term Sheet is duly authorized to do so on behalf of the Party and is validity in office as on the date of the signing of this Term Sheet and (ii) The competent authority of Parties have duly approved the terms contained in this Term Sheet being executed by its authorized representative. <p>Each Party undertake to fully corporate in the execution of the SSA within the time frame agreed herein so as to duly replace this Term Sheet and effectuate the terms agreed herein by all Parties.</p>

IN WITNESS WHEREOF, Parties have caused this Term Sheet to be executed by their duly authorized representatives as of the date first above written.

SECTION OFFICER